

CURRENTS

WESTERN CANADA'S ECONOMIC BULLETIN

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→ 2011 LABOUR MARKETS

→ URBAN JOB CREATION

→ FISCAL TRANSFERS

Monthly Highlights

Limping Over the Finish Line

After posting a solid performance in the third quarter of 2011, the Canadian economy was flat in October. Modest growth in services sector output offset small losses in the goods sector. Three main factors contributed to a weak October for goods-producing industries: a decline in residential and non-residential construction activity; a drop in potash output; and lower electrical power generation and transmission.

End-of-year weakness in national employment figures points to continued uncertainty for the Canadian economy in the months ahead. Labour markets limped over the finish line in December with a meagre monthly increase of 17,500 jobs nationally. Making matters worse was that *full-time* employment in Canada fell by 25,500 positions in December. This was offset by an increase of 43,100 *part-time* positions.

In western Canada, the news was slightly better, as the region's labour markets closed out the year on a relatively positive note. Even so, 2011 has proved to be, for the most part, an unremarkable year on the job-creation front in the region.

After reaching as high as 3.7% in May 2011, inflation has begun to ease off, falling below 3.0% in October and November. Lower

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,293	2,131	528	626	17,345	December
% change from previous month	0.5	0.0	0.6	0.3	0.1	
Unemployment rate (%)	7.0	4.9	5.2	5.4	7.5	December
change in percentage points from previous month	0.0	-0.1	0.1	-0.1	0.1	
Participation rate (%)	65.0	74.0	69.2	69.1	66.6	December
Average weekly earnings (\$)	847.53	1,049.31	896.53	812.24	885.36	October
% change from previous month	0.7	-0.1	-0.9	0.5	1.4	
Inflation						
Consumer Price Index (% change from Nov. 2010)	2.3	3.2	2.9	3.1	2.9	November
Economic Activity						
Retail trade (\$M)	5,065	5,584	1,409	1,414	38,598	October
% change from previous month	1.7	3.0	1.9	1.9	1.0	
Wholesale trade (\$M)	4,368	6,398	2,011	1,344	49,241	October
% change from previous month	1.6	3.9	8.4	4.5	0.9	
Manufacturing sales (\$M)	3,172	6,024	1,126	1,254	48,660	October
% change from previous month	-1.2	-4.2	1.2	-0.9	-0.8	

Unless otherwise noted, data are seasonally adjusted.
Source: Statistics Canada

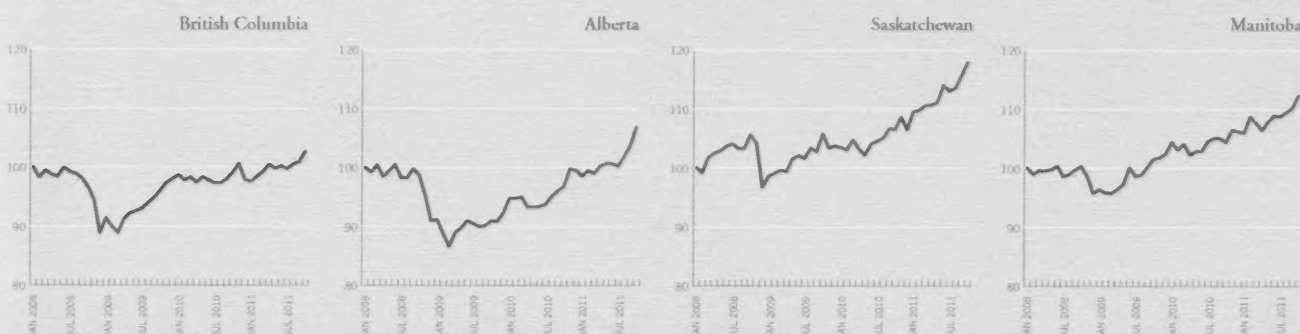
energy costs are the primary factor behind the decrease. According to the Bank of Canada's Commodity Price Index, energy prices fell by about 18.8% from early May to the end of November 2011. Meanwhile, core inflation, which excludes volatile energy and food prices, has remained stable at around 2.1%.

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RETAIL TRADE (INDEX: JAN. 2008=100)

Source: Statistics Canada



Monthly Feature

Provincial Labour Markets: Year in Review

The books are starting to close on 2011. While some economic indicators take months or even years to be finalized, monthly labour force numbers are available within a few days of month's end. As a result, we now have a complete picture of how labour markets in western Canada performed last year.

On the positive side, Alberta was the runaway leader by virtually every measure. Led by wholesale trade, resource extraction and related manufacturing and services activity, total employment in the province rose by 3.8% in 2011, more than double the national average. Moreover, nearly all of Alberta's new jobs were full-time positions. Full-time employment in the province rose by 4.5%, while the number of part-time positions increased by just 0.7%. Strong job creation numbers not only lowered the provincial unemployment rate from 6.5% in 2010 to 5.5% last year, but also convinced many Albertans who were not actively looking for work to re-enter the labour force. The province's participation rate, already the highest in the country, rose from 72.9% to 73.7% in 2011.

In BC, total employment rose by 0.8% last year. Strong growth in construction activity and accommodation and food services led the way, offsetting weakness in sectors such as retail trade and finance and insurance. The province's unemployment rate fell slightly, from 7.6% in 2010 to 7.5% last year.

A weak performance in the middle half of 2011 dampened the impact of Manitoba's strong job gains early and late in the year. As in BC, total employment in Manitoba increased by 0.8% last year. Construction and health care and social assistance were the primary drivers of growth in 2011, while the largest job losses came in education and business, building and other support services. Manitoba's unemployment rate held steady at 5.4% last year.

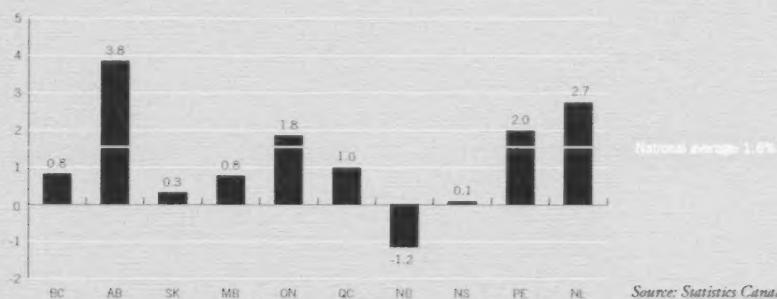
For its part, Saskatchewan had the weakest labour market performance in western Canada in 2011. While the province is still expected to be among the leaders in provincial economic growth, that growth did not translate into job gains last year. Total employment increased by just 0.3% in 2011, weighed down by job losses in goods-producing industries, especially agriculture and durable-goods manufacturing. On the bright side, full-time employment accounted for all this growth and then some; the number of full-time positions in Saskatchewan was up by 1.1% last year, compared to a 3.3% decrease in part-time employment.

Tepid job prospects in Saskatchewan resulted in a number of people exiting the provincial workforce in 2011. As a result, in spite of slow overall job growth, Saskatchewan's annual unemployment rate fell slightly last year, from 5.2% to 5.0%. For the third year in a row, Saskatchewan had the lowest unemployment rate in Canada.

73.7%

Alberta's labour force participation rate in 2011 – the highest in Canada.

EMPLOYMENT GROWTH BY PROVINCE IN 2011 (%)



Source: Statistics Canada

DID YOU KNOW?

Over the past five years, total employment growth in the four western provinces has been faster than anywhere else in Canada.

Alberta created 77,500 net new jobs in 2011. Not including Ontario, that total is greater than the number of jobs created in all other provinces combined.

The three industries to post the largest job gains in western Canada in 2011 were accommodation and food services; professional, scientific and technical services; and construction. Combined, those three sectors accounted for 68.7% of all net new jobs in the region last year.

BEHIND THE NUMBERS

Western Canada's three largest cities accounted for the lion's share of regional employment growth in 2011.

Together, 89,400 net new jobs were created in Vancouver, Calgary and Edmonton in 2011, making up nearly 88% of total employment gains across the region last year. Edmonton led the way with 37,600 new positions – an increase of 5.9% over 2010 employment levels. More jobs were created in Edmonton last year than in any other city in Canada, except Toronto (where employment grew by 40,600).

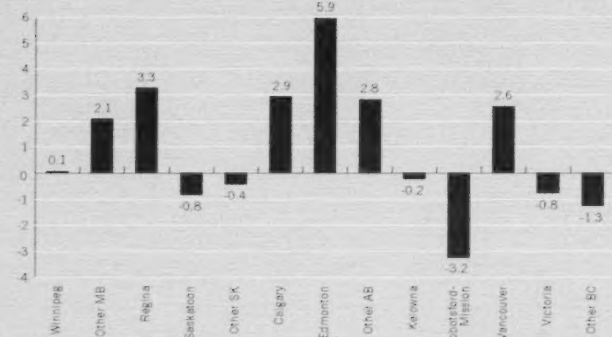
Vancouver finished a close second, generating 31,100 new jobs in 2011. In fact, Vancouver was the sole bright spot in the BC labour market last year. Employment fell in all BC's other major cities in 2011, as did the total number of jobs in BC's smaller communities and rural areas.

Aside from Edmonton, Vancouver and Calgary, Regina was the only other major urban centre in western Canada to post significant job-creation numbers in 2011.

4.7%

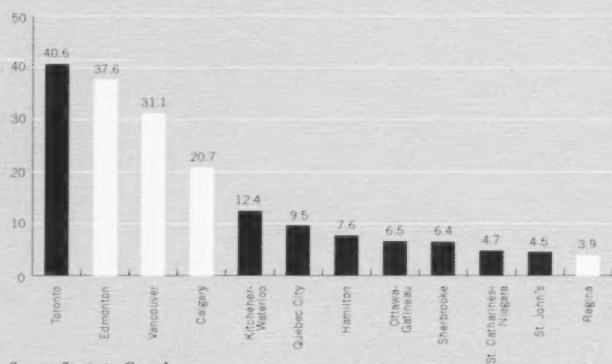
unemployment in Regina – the lowest rate of any major city in Canada.

2011 EMPLOYMENT GROWTH IN WESTERN CANADA BY MAJOR URBAN CENTRE (%)



Source: Canada West Foundation calculations using Statistics Canada data

CANADIAN CITIES WITH THE LARGEST EMPLOYMENT GAINS IN 2011 (000s OF NET NEW JOBS)



Source: Statistics Canada

Energy Focus: Saskatchewan

Clean Coal

Construction is underway on a \$1.24 billion clean coal demonstration project near Estevan. The Boundary Dam Integrated Carbon Capture and Storage Demonstration Project is the first of its kind in the world and represents the largest capital investment undertaking in SaskPower's history.

The project will upgrade and significantly extend the life of an existing unit at the Boundary Dam Power Station, originally commissioned in 1973. Once the retrofit is completed in the spring of 2014, unit 3 will fully integrate a modern coal-fired power plant with carbon capture technology.

While overall generating capacity will fall from 139MW to 100MW, the state-of-the-art facility is expected to reduce provincial greenhouse gas emissions by 1 million tonnes per year. To help offset construction and operations costs, the carbon captured from plant operations will be sold to oil companies operating in the area and used for enhanced oil recovery near Saskatchewan's Energy City.

SaskPower Boundary Dam generating station

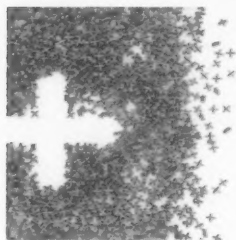


Source: Wikipedia at en.wikipedia, 2008

OPINION

BY MICHAEL HOLDEN, SENIOR ECONOMIST

New Federal Health Funding Formula: A Stress Test for the Equalization Program



There are three major federal-provincial transfer programs, all of which are up for renewal in 2013-2014. But just as the provinces, along with a handful of economists and policy analysts, were beginning to gear up for another round of protracted and arcane debates about fiscal federalism, Ottawa preemptively,

and unilaterally, announced its funding formula for two of those programs in December 2011: the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

The announcement prompted a backlash in some circles because health transfers will grow at a slower rate beginning in 2016-2017. Another big change is that CHT cash transfers will be distributed on an equal-per-capita basis across the provinces (the CST made that transition a few years ago). At present, "richer" provinces such as Alberta and, to a lesser extent, BC and Saskatchewan, receive less CHT cash per resident than "poorer" provinces. As a result, the transition to equal-per-capita payments will disproportionately benefit the "richer" provinces.

This transition also has implications for the third major federal-provincial transfer – equalization. The fact that "richer" provinces currently receive less health care support per person is, in a sense, another form of equalization over and above the equalization program itself. This redistributive feature of the CHT will be eliminated, leaving the formal equalization program as the sole vehicle through which interprovincial fiscal disparities are addressed.

Back in 1977, the federal government introduced a new transfer program to support provincial delivery of health, post-secondary education and social assistance. The transfer consisted of two components. The first was a tax point transfer which saw the federal government lower its personal and corporate income taxes, allowing the provinces to raise theirs by an equivalent amount. The second part was a cash payment. The sum total of the two components was distributed on an equal-per-capita basis across the provinces.

The tax point transfer was a one-time event and is essentially meaningless today (because it represents provincial own-source revenue). However the notional value of the tax points is calculated every year because it directly affects how the federal government distributes CHT cash payments. Provinces where incomes are high can generate more money from their tax base. At the risk of slightly oversimplifying the details of the transfer, since the *total* CHT (tax points plus cash) is equal-per-capita, the more money a province can make from those tax points, the less federal cash it receives.

Historically, provinces like Alberta and Ontario were opposed to this arrangement. They argued that, since the cash component of the CHT (and CST) was the only *actual* transfer taking place, all provinces should receive the same per-capita payment and that all redistributive federal-provincial transfers should be restricted to the equalization program. It is worth noting that Ontario has changed its tune since it became a "have not" province.

The new CHT funding formula makes some intuitive sense. It clarifies the respective roles of both the CHT and equalization and thus improves the transparency of each: the CHT helps the provinces pay for health care, while equalization works to ensure that all provinces can deliver comparable levels of government services at comparable levels of taxation.

At the same time, however, the loss of the redistributive component of the CHT is a matter of legitimate concern for "poorer" provinces and casts a spotlight on the equalization program. In a country where provinces with different levels of wealth and resource endowments are expected to provide comparable levels of public health and education services, this type of transfer program is a necessity.

As a result, the stakes have never been higher as federal and provincial officials begin their quinquennial review of the technical aspects of equalization, adjustments to which will affect how the transfer is distributed across qualifying provinces. In light of the planned changes to the CHT, it is critical that these discussions produce an equalization program that is both sufficient in size and equitable in distribution.

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